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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY)
FOR APPROVAL OF MODIFICATIONS)
TO ITS GAS COST RATES)
(FILED AUGUST 28, 2013))
)**

PSC DOCKET NO. 13-349F

DIRECT TESTIMONY OF

JEROME D. MIERZWA

ON BEHALF OF THE

**STAFF OF THE DELAWARE PUBLIC SERVICE COMMISSION AND
DIVISION OF THE PUBLIC ADVOCATE**

FEBRUARY 26, 2014

DELMARVA POWER & LIGHT COMPANY
DOCKET NO. 13-349F
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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Jerome D. Mierzwa. I am a principal and Vice President of Exeter
4 Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
6 related consulting services.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of
10 Science Degree in Marketing. In 1985, I received a Masters Degree in Business
11 Administration with a concentration in finance, also from Canisius College. In July 1986, I
12 joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a
13 Management Trainee in the Research and Statistical Services Department ("RSS"). I
14 was promoted to Supervisor RSS in January 1987. While employed with NFG
15 Distribution, I conducted various financial and statistical analyses related to the
16 company's market research activity and state regulatory affairs. In April 1987, as
17 part of a corporate reorganization, I was transferred to National Fuel Gas Supply
18 Corporation's ("NFG Supply") rate department where my responsibilities included
19 utility cost of service and rate design analysis, expense and revenue requirement
20 forecasting and activities related to federal regulation. I was also responsible for
21 preparing NFG Supply's Purchase Gas Adjustment ("PGA") filings and developing
22 interstate pipeline and spot market supply gas price projections. These forecasts were
23 utilized for internal planning purposes as well as in NFG Distribution's purchased gas
24 cost rate proceedings.

1 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
2 December 1992, I was promoted to Senior Regulatory Analyst. Effective
3 April 1, 1996, I became a principal of Exeter. Since joining Exeter, my assignments
4 have included evaluating the gas purchasing practices and policies of natural gas
5 utilities, utility class cost of service and rate design analysis, sales and rate
6 forecasting, performance-based incentive regulation, revenue requirement analysis,
7 the unbundling of utility services and the evaluation of customer choice natural gas
8 transportation programs.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS**
10 **ON UTILITY RATES?**

11 A. Yes. I have provided testimony on more than 100 occasions in proceedings before
12 the Federal Energy Regulatory Commission ("FERC"), utility regulatory
13 commissions in Georgia, Illinois, Indiana, Louisiana, Maine, Montana, Nevada, New
14 Jersey, Ohio, Pennsylvania, Rhode Island, Texas and Virginia, as well as before the
15 Delaware Public Service Commission ("Commission").

16
17 **II. SCOPE AND PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

19 A. Exeter was retained by the Commission's Staff ("Staff") and the Division of the
20 Public Advocate ("DPA") to review the Gas Cost Rate ("GCR") application of
21 Delmarva Power & Light Company ("Delmarva" or "the Company") and evaluate the
22 reasonableness of its gas procurement practices and policies. The purpose of my
23 testimony is to present findings and recommendations to the Commission concerning
24 the Company's gas procurement policies and practices. Also testifying in this
25 proceeding on behalf of the Staff is Ms. Malika Davis. Ms. Davis summarizes the

1 Company's application and proposed rates, and addresses the Settlement agreement
2 in Docket No. 12-419F. Ms. Davis also addresses the recovery of the costs associated
3 with Delmarva's ongoing investigation of lost and unaccounted-for gas ("LAUF"),
4 Delmarva's interstate pipeline charges, and the Company's off-system sales and
5 capacity release activities.

6 **Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA**
7 **SOURCES DID YOU UTILIZE?**

8 A. I reviewed the Company's application, responses to discovery requests, and
9 information provided during informal discovery. I also reviewed information
10 provided in previous Company proceedings before this Commission.

11 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT**
12 **SUPERVISION?**

13 A. Yes, I prepared this testimony.
14

15 **III. SUMMARY OF CONCLUSIONS**

16 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

17 A. My findings and recommendations are as follows:

- 18
19 • Delmarva is terminating its Firm Transportation Peaking Service ("FTPS")
20 contract with Transcontinental Gas Pipe Line ("Transco") effective May 31,
21 2014. This will reduce the design peak day supply deliverability (or capacity)
22 available to meet firm sales customer requirements to 183,485 Mcf, or
23 189,907 Dth. Based on the most recent daily demands of firm sales
24 customers, this level of capacity appears reasonable. At this time, Delmarva
25 does not anticipate acquiring additional capacity and this also appears
26 reasonable.
- 27
28 • Delmarva assesses its transportation customers a Balancing Fee for daily
29 differences between a customer's consumption and the quantity of gas
30 delivered to the Company on the customer's behalf ("excess volumes"). I
31 recommend that the Balancing Fee be assessed on all transportation customer
32 throughput rather than excess volumes.

1 **IV. CAPACITY PLANNING AND MANAGEMENT**

2 **Q. HOW DOES A GAS UTILITY SUCH AS DELMARVA TYPICALLY**
3 **DETERMINE THE AMOUNT OF PIPELINE CAPACITY WHICH IT**
4 **SHOULD RESERVE, OR MAINTAIN?**

5 A. A gas utility such as Delmarva would typically reserve pipeline capacity sufficient to
6 meet the design peak day demands of its firm retail sales customers. Design peak day
7 is an extremely cold day which a gas utility selects and utilizes for capacity planning
8 purposes. The design peak day used by Delmarva for capacity planning purposes is a
9 day with an average temperature of 0°F.

10 **Q. HOW DOES THE AMOUNT OF CAPACITY RESERVED BY DELMARVA,**
11 **OR ITS CAPACITY ENTITLEMENTS, COMPARE TO THE EXPECTED**
12 **DESIGN PEAK DAY DEMANDS OF ITS FIRM SALES CUSTOMERS?**

13 A. A comparison of Delmarva's capacity entitlements and the expected design peak day
14 demands of its sales customers for the current winter season and the next five winter
15 seasons is shown in Table 1. The difference between a gas utility's capacity
16 entitlements and the expected design peak day demands of its sales customers is
17 generally referred to as a reserve margin. As shown in Table 1, Delmarva is currently
18 not anticipating any future capacity additions.

Table 1 Comparison of Capacity Entitlements and Estimated Design Peak Day Demands (Mcf)				
Winter Season	Demand	Capacity	Reserve Margin	
			Quantity	Percent
2013 - 2014	172,077	185,085	13,008	7.56
2014 - 2015	173,313	183,485	10,172	5.87
2015 - 2016	174,583	183,485	8,902	5.10
2016 - 2017	175,796	183,485	7,689	4.37
2017 - 2018	176,841	183,485	6,644	3.76
2018 - 2019	177,803	183,485	5,682	3.20

1

2 **Q. DID YOU REVIEW DELMARVA'S DESIGN PEAK DAY FORECASTS?**

3 A. Yes. The Company prepared a linear regression analysis of daily firm sales (sendout)
4 and temperature for the winter of 2012-2013 using days on which the average
5 temperature was below 35°F. The predictive equation from the regression analysis
6 was then used to estimate what sendout would have been during the winter of 2012-
7 2013 under a design peak day of 0°F. The design peak day forecasts for the winter of
8 2013-2014 and beyond reflect the estimate initially calculated for the winter of 2012-
9 2013, adjusted for customer growth.

10 **Q. HAVE YOU ANALYZED THE LEVEL OF SENDOUT EXPERIENCED BY**
11 **DELMARVA DURING THE CURRENT WINTER SEASON?**

12 A. Yes. Similar to the Company's forecast, I prepared a linear regression analysis of
13 daily sendout and temperature for January 2014 using days on which the average
14 temperature was below 35°F. The day with the highest sendout during this month
15 was January 7th. This was also the coldest day during the month and the average
16 temperature on this day was 10°F. The predictive equation from my analysis
17 indicated that if a design peak day temperature of 0°F were experienced on January
18 7th, sendout on this day would have been 178,477 Mcf, or 6,400 Mcf higher than the

1 Company's design peak day forecast. Nevertheless, the 183,485 Mcf of capacity
2 which Delmarva plans to maintain would have been more than adequate to meet sales
3 customer demands had a design peak day temperature been experienced on January
4 7th.

5 **Q. GIVEN THIS RECENT EXPERIENCE, ARE DELMARVA'S CAPACITY**
6 **ENTITLEMENTS AND RESERVE MARGIN REASONABLE?**

7 A. Yes. Delmarva reserves capacity to meet the requirements of its firm sales customers
8 and a reserve margin to accommodate future customer growth and to serve loads in
9 the event that demands in excess of projected design peak day demands are
10 experienced. In previous GCR proceedings, Staff has generally maintained that
11 Delmarva's reserve margin should be limited to 5 percent.

12 Given the potential for actual demands to exceed forecasted demands during
13 the peak cold conditions experienced this current winter, the reduction in its reserve
14 margin to 5.87 percent for the 2014-2015 winter season, and the current usage
15 characteristics of its customers, Delmarva's capacity entitlements and reserve margin
16 appear to be reasonable.

17 **V. BALANCING FEE**

18 **Q. WHAT IS DELMARVA'S BALANCING FEE AND TO WHICH**
19 **CUSTOMERS IS IT ASSESSED?**

20 A. Delmarva's Balancing Fee is a charge assessed to transportation customers
21 purportedly designed to recover: (1) the costs associated with the pipeline capacity
22 used to accommodate differences, or imbalances, between the consumption of a
23 transportation customer and the deliveries to Delmarva on that customer's behalf; and
24 (2) the pipeline capacity necessary to ensure system reliability. Delmarva's proposed
25 Balancing Fee is 33.37 cents per Mcf, and the design of this charge is shown on

1 Schedule SAD-12. As shown there, the Balancing Fee provides for the recovery of
2 the demand charges associated with the no-notice services which Delmarva purchases
3 (i.e., Transco GSS, Columbia FSS, and Columbia SST), and the Eastern Shore
4 pipeline capacity which provides pressure support to all customers (PSC-DPA-65).
5 The Balancing Fee is calculated by dividing no-notice and Eastern Shore pipeline
6 demand charges of \$6,497,696 ("Balancing Costs") by the projected annual
7 throughput of all customers (i.e., firm sales, firm transportation, and interruptible
8 transportation) of 19,473,329 Mcf.

9 **Q. IS THE BALANCING FEE ASSESSED ON ALL ANNUAL**
10 **TRANSPORTATION CUSTOMER THROUGHPUT?**

11 A. No. The Balancing Fee is assessed on a daily basis on the imbalance, whether
12 positive or negative, between the consumption (throughput) of a transportation
13 customer and the deliveries to Delmarva on behalf of that customer (referred to as
14 "excess volumes"). For example, if a transportation customer consumes 25 Mcf on a
15 particular day but 30 Mcf is delivered to Delmarva on that day on the customer's
16 behalf, a Balancing Fee would have been assessed on the 5 Mcf imbalance. If a
17 transportation customer consumes 30 Mcf on a particular day but 25 Mcf is delivered
18 to Delmarva on that day on the customer's behalf, a Balancing Fee would have been
19 assessed on the 5 Mcf imbalance.

20 **Q. WHY IS THE BALANCING FEE ASSESSED ON EXCESS VOLUMES**
21 **RATHER THAN TOTAL THROUGHPUT?**

22 A. In the response to PSC-DPA-67, Delmarva claims it is appropriate to assess the
23 Balancing Fee on excess volumes because it is excess volumes, not total throughput,
24 which derives the requirement to use balancing services.

1 **Q. DO YOU AGREE WITH DELMARVA'S RATIONALE FOR ASSESSING**
2 **THE BALANCING FEE ON EXCESS VOLUMES?**

3 A. No, for several reasons. First, the Balancing Fee should be assessed upon the billing
4 determinants upon which it was designed. That is, total throughput. It is illogical and
5 inconsistent to design rates on one set of billing determinants (i.e. throughput) and
6 then assess the charge on another (i.e. excess volumes).

7 Second, the Balancing Fee is designed to recover the costs associated with
8 providing balancing service to transportation customers and maintaining system
9 reliability. To provide balancing service and maintain system reliability, Delmarva
10 purchases services from interstate pipelines, and pays demand charges for these
11 services. It is these interstate pipeline demand charges which the Balancing Fee is
12 designed to recover. The demand charges paid by Delmarva are fixed and are not
13 dependent upon the extent to which Delmarva uses a particular service on a particular
14 day. That is, Delmarva cannot avoid these charges if on a particular day it does not
15 use a service. Since Delmarva's balancing and system reliability costs are not
16 dependent on the extent to which the underlying pipeline services are used every day
17 and the Balancing Fee is designed based on total throughput, the recovery of these
18 costs through the Balancing Fee should not be limited only to days on which
19 transportation customers require balancing service.

20 Finally, a significant percentage of Delmarva's Balancing Costs consist of the
21 Eastern Shore capacity which provides pressure support to all customers. Pressure
22 support is required throughout the year to maintain daily throughput. This supports
23 an assessment of Balancing Fees on daily throughput rather than excess volumes.
24 Under the current approach of assessing the Balancing Fee only on excess volumes, a
25 transportation customer would contribute nothing to the recovery of the costs

1 associated with providing pressure support on days the customer had no excess
2 volumes.

3 **Q. WHAT IS THE IMPACT OF DESIGNING THE BALANCING FEE BASED**
4 **ON TOTAL THROUGHPUT BUT ASSESSING THE CHARGE ONLY ON**
5 **EXCESS VOLUMES?**

6 A. As shown on Schedule SAD-12, Delmarva's Balancing Costs total \$6,497,696, and
7 transportation customer volumes represent 36.5 percent of total throughput. If the
8 Balancing Fee were assessed on throughput, transportation customers would be
9 responsible for \$2,371,659 in Balancing Costs (\$6,497,696 x 36.5 percent).
10 However, because the charge is assessed only on excess volumes, it is estimated that
11 the Balancing Fees to be collected from transportation customers will be \$402,157
12 (Schedule SAD-1, page 6). This reflects 1.4 percent of Delmarva's total pipeline
13 demand charges and equates to a balancing charge of 5.66 cents per Mcf of
14 throughput. By default, the Balancing Costs not recovered from transportation
15 customers are recovered from sales customers.

16 **Q. HOW DOES A THROUGHPUT BALANCING CHARGE OF 5.66 CENTS PER**
17 **MCF COMPARE TO THE BALANCING CHARGES OF CHESAPEAKE**
18 **UTILITIES CORPORATION?**

19 A. The current balancing charge for Chesapeake's Large Volume Service¹ transportation
20 customers is 63.0 cents per Mcf on all throughput. The current balancing charge for
21 High Load Factor Service² transportation customers is 22 cents per Mcf on all
22 throughput.

¹ Available to commercial and industrial customers with consumption in excess of 3,000 Mcf per year.

² Available to commercial and industrial customers with consumption in excess of 3,000 Mcf per year and with no more than 35 percent of annual consumption during January through March.

1 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO DELMARVA'S**
2 **BALANCING FEE?**

3 A. I recommend that, consistent with its design, the Balancing Fee be assessed on
4 transportation customer throughput. In my experience, no other natural gas local
5 distribution company ("LDC") calculates and assesses a balancing charge in the
6 manner in which DPL does; rather, LDCs typically calculate and assess their
7 balancing charges in the same manner as Chesapeake, which is the manner that I am
8 recommending.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes, it does.